

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

by interrelated and parallel proceedings. GTE commends Ad Hoc's willingness to reexamine its position and to adopt a more reasonable and workable approach.

However, there are other elements of the *Petition* with which GTE must express reservations or disagreement -- which are set out *infra*.

### DISCUSSION

- 1. To facilitate timely reform of access regulations, a new rulemaking proceeding is not required; the price cap review proceeding already under way provides a record on which a decision can be soundly based.**

GTE agrees with comments that urge the Commission to develop a framework within which reform of its access charge rules can proceed.<sup>3</sup> However, as BellSouth (at 2) observes, the Commission has already established in its price cap review docket,<sup>4</sup> a proceeding in which much of this framework can, and should, be adopted. GTE and USTA have presented proposals in that proceeding for a new price cap framework that will address many of the deficiencies of the current access charge rules, and parties had ample opportunity to comment thereon.<sup>5</sup> This reform is urgently needed if the Commission is to meet its policy goals. *Price Cap Review* being ripe for decision based on a full record, the Commission should move forward in that proceeding to adopt a new price cap framework as soon as possible.

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<sup>3</sup> See AT&T at 1, Sprint at 2, MCI at 4, NYNEX at 2.

<sup>4</sup> Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 941 ("*Price Cap Review*") ("D.941").

<sup>5</sup> See GTE's Comments at 37-64 and USTA's Comments at 44-78. These proposals are consistent with the framework previously proposed by the *USTA Petition*.

GTE opposes the recommendations of parties that decision should be further delayed by initiating a Notice of Inquiry.<sup>6</sup> Commission action in D.94-1 should not be delayed or conditioned on completion of another proceeding, especially not for a proceeding not yet begun. As BellSouth notes (at 2-3), that course of action "would result in the very 'bog down' that the Committee claims its petition seeks to avoid."

To the extent that any aspect of needed reform is not addressed in *Price Cap Review*, those items could be dealt with in a later phase of that proceeding.<sup>7</sup> For this purpose, the Commission may incorporate the extensive existing record in the proceedings involving the *USTA Petition*, the *NARUC Petition*, and the *Staff Paper*. With this great mass of information already available in the record, it is simply not necessary to issue a Notice of Inquiry.

**In summary:** To the extent further rulemaking is required, it should not delay the essential decisions now ripe for action in *Price Cap Review*. Any further rulemaking should be initiated by a Notice of Proposed Rulemaking that tentatively outlines a solution and addresses any questions not answered in the existing record.

**2. Pricing flexibility for exchange carriers, conditioned on the existence of alternative service providers in the access market involved, can and should be adopted before access reform and separations reform efforts are completed.**

GTE agrees with parties advocating that the degree of pricing flexibility afforded Local Exchange Carriers ("LECs" or "exchange carriers") under a new access charge

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<sup>6</sup> See MCI at 5 and Sprint at 3.

<sup>7</sup> One obvious example of such an issue is the development of parallel reform for rules affecting rate of return companies.

framework should depend upon the level of competition in each access market.<sup>8</sup> GTE's proposals for a new price cap plan would establish well-defined market areas, criteria for evaluating the degree of competition in each area, and the pricing rules to which services would be subject, given the competitive classification of the market.<sup>9</sup> Pricing flexibility would be conditioned on the availability of alternative services from providers with facilities in place to furnish them.

As GTE explained in its *Price Cap Review* reply comments (at 57-62), the proposed framework does not prejudge the state of access competition in any market, and it is based on the existence of actual, not potential, choices for customers.

As Ad Hoc notes (*Petition* at 2), parties may disagree concerning the existing level of competition. But the Commission does not need a consensus on this point in order to set in place an appropriate framework. As U S WEST points out (at 2-3), no party will be harmed by the establishment of such a framework, since flexibility would be granted only when, and where, the criteria incorporated in the framework are satisfied. Thus, the proposed framework does not permit exchange carriers to inhibit the development of competition in a market.

Commission use of such a framework of adaptive regulation as part of its new price cap plan would serve as the means to achieve much of the access reform Ad Hoc seeks, while also providing the opportunity for genuine competition to develop. In

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<sup>8</sup> See Ad Hoc Petition, attachment at 9, 34, and n.21 See also, U S WEST at 3, BellSouth at 3-4.

<sup>9</sup> See GTE's D.94-1 Comments at 41-60.

contrast, if LECs are denied the ability to make offerings that respond to the initial service offerings of new competitors, genuine competition will not exist.<sup>10</sup>

**In summary:** The Commission should adopt pricing flexibility for exchange carriers, conditioned on the existence of alternative service providers in the access market involved, without waiting for completion of access reform and separations reform.

**3. GTE applauds Ad Hoc's recognition that a comprehensive review of universal service policies is urgently needed.**

GTE agrees with comments urging the Commission to undertake a thorough and comprehensive review of its policies regarding universal service.<sup>11</sup> The *USTA Petition* (at 38-44) called for a proceeding to be established to address these issues and GTE has consistently supported this proposal.<sup>12</sup> As the *USTA Petition* noted (at 6), such a proceeding could be conducted in parallel with proceedings on pricing and rate structure issues. On this point, then, there is no essential disagreement between GTE-USTA and Ad Hoc.

GTE also agrees with Ad Hoc (*Petition* at 22) and with Southwestern Bell (at 8) that the burden of funding universal service should not be borne by LEC rates alone, but that all market participants should contribute on a basis that minimizes market distortions.

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<sup>10</sup> See Southwestern Bell at 12-16.

<sup>11</sup> See NARUC at 4-5, U S WEST at 5, MCI at 4.

<sup>12</sup> See also GTE's Comments on the *NARUC Petition*, filed September 2, 1993, at 15-20; GTE's Comments on the *Staff Paper*, filed September 23, 1993, at 11-16.

However, GTE disagrees with Ad Hoc's suggestion (*Petition* at 5) that issues of universal service funding must be resolved before progress can be made on access reform. To the extent that the outcome of any proceeding on universal service has an effect on the level of access rates, any necessary adjustments can be made at that time, regardless of whether a new access framework has been adopted. If anything, such adjustments will be more readily accomplished within the new framework proposed by GTE and USTA.

**In summary:** A comprehensive review of the Commission's universal service policies is long overdue. Such a review must encompass not only the issues identified by Ad Hoc, but also those within other pending requests for Commission action.

**4. Separations reform is not a necessary prerequisite to pricing reform.**

GTE agrees with Ad Hoc (*Petition*, attachment at 8) and BellSouth (at 3-4) that the current separations process does not provide cost information which would be useful for the setting of specific access rates. For this reason, among others, it is reasonable that access price-setting should be "delinked" from the separations rules. However, in order to accomplish this, it is not necessary, as Ad Hoc suggests, to modify the separations process itself. As Southwestern Bell points out (at 2), price cap regulation itself provides the means for breaking the link between rate-setting and cost allocation.

The immediate goal, then, should be to complete this process, from the federal perspective, by eliminating the sharing mechanism and lower bound adjustment that

are the last remaining links to rate of return regulation within the Commission's price cap plan.<sup>13</sup>

There will be a need, as the Commission reassesses its universal service policy, to examine the support levels that are implicit in access rates today. The Commission may choose to replace some of this implicit support with a more explicit mechanism, or may seek to rebalance rates to some degree. However, these are choices having to do with appropriate rate setting and recovery mechanisms, not with cost allocation. Contrary to Ad Hoc's assertion (*Petition* at 10), the separations process should not drive these decisions.<sup>14</sup>

Further, if the setting of interstate access rates is truly delinked from the separations process, as Ad Hoc suggests, then the specifics of the allocation mechanism, with which Ad Hoc concerns itself in the *Petition*, should be of little importance for customers of interstate access.<sup>15</sup> Future changes in interstate access rates, beyond those required by the price cap formula, should be determined by market forces and by changes in the Commission's policies regarding universal service.<sup>16</sup>

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<sup>13</sup> The USTA proposal in D.94-1 would eliminate mechanisms in current rules which allocate costs from Part 36 to specific rate elements in Part 69. This proposal is consistent with Ad Hoc's proposal to delink the separations process from access rate development.

<sup>14</sup> To the extent that separations remain relevant in the future, it may be appropriate to modify separations at some point to conform to the outcome of the process which has set the level of interstate rates.

<sup>15</sup> As Ad Hoc itself points out (*Petition* at 10), its Jurisdictional Transfer Mechanism proposal is not intended to address the issue of the appropriate level of interstate access charges.


<sup>16</sup> As GTE showed in its price cap comments (at 14-15), GTE is pricing many of its access rates below their respective caps. The level of GTE's access rates is therefore already being determined to a large degree by market forces.

**In summary:** Access pricing reform should proceed separately from separations reform because price caps already breaks the link between rate-setting and separations cost allocation.

Respectfully submitted,

GTE Service Corporation and its affiliated  
domestic telephone operating companies

Richard McKenna, HQE03J36  
GTE Service Corporation  
P.O. Box 152092  
Irving, TX 75015-2092  
(214) 718-6362

By   
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Gail L. Polivy  
1850 M Street, N.W.  
Suite 1200  
Washington, DC 20036  
(202) 463-5214

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Their Attorneys



### **Certificate of Service**

I, Ann D. Berkowitz, hereby certify that copies of the foregoing "GTE's Reply Comments" have been mailed by first class United States mail, postage prepaid, on the 25th day of July, 1994 to all parties on the attached list.

  
Ann D. Berkowitz

Daryl L. Avery  
General Counsel  
Public Service Commission  
of the District of Columbia  
450 Fifth Street, N.W.  
Eight Floor  
Washington, DC 20001

James S. Blaszk  
Attorney  
Gardner, Carton & Douglas  
1301 K Street, N.W.  
Suite 900, East Tower  
Washington, DC 20005

Elizabeth Dickerson  
Attorney  
MCI Telecommunications Corporation  
1801 Pennsylvania Avenue, NW  
Washington, DC 20006

H. Richard Juhnke  
Attorney  
US Sprint Communications  
1850 M Street, NW  
Suite 1110  
Washington, DC 20036

Mary McDermott  
General Counsel  
United States Telephone Association  
1401 H Street, NW  
Suite 600  
Washington, DC 20005

Brian R. Moir  
Attorney  
Moir & Hardman  
2000 L Street, N.W.  
Suite 512  
Washington, DC 20036-4907

Edward E. Niehoff  
Attorney  
NYNEX Telephone Companies  
120 Bloomingdale Road  
White Plains, NY 10605

Michael S. Pabian  
Attorney  
Ameritech Operating Companies  
2000 West Ameritech Center Drive  
Room 4H76  
Hoffman Estates, IL 60196-1025

Paul Rodgers  
General Counsel  
National Association of  
Regulatory Utility Commissioners  
1102 ICC Building  
P.O. Box 684  
Washington, DC 20044

Mark C. Rosenblum  
Attorney  
American Telephone and  
Telegraph Company  
295 North Maple Avenue  
Room 3244J1  
Basking Ridge, NJ 07920

Richard M. Sbaratta  
Attorney  
BellSouth Telecommunications, Inc.  
4300 Southern Bell Center  
675 West Peachtree Street  
Atlanta, GA 30375

Michael J. Zpevak  
Attorney  
Southwestern Bell Telephone Company  
1010 Pine Street  
Room 2114  
St. Louis, MO 63101